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$1.50 a co...

Monday, May 12, 1986

Advertising Age

Crain's International Newspaper of Marketing. In Two Sections, Section 1.

S&S' $450M buys Bates

Colgate likely to leave $7.6 billion mega-shop

By STEWART ALTER

Saatchi & Saatchi Co. is expected to announce today that it will acquire Ted Bates Worldwide for $450 million, a move that would immediately realize the London-based company's ambition to be the No. 1 ad-agency group in the world.

Excluding possible client fallout, Saatchi's worldwide advertising empire will now include $7.6 billion in billings in 150 worldwide offices. Bates is likely to resign its Colgate-Palmolive business since Procter & Gamble is more important to the Saatchi organization.

The Bates purchase is likely to satisfy Saatchi's appetite for acquiring ad agencies for the time being.

The deal—by far the biggest in advertising history—carries the rankings on the top ad agency holding companies [illegible] two weeks after BBDO International-Doyle Dane Bernbach Group-Needham Harper Worldwide shook it up with their formation of a $5 billion operation (AA, April 28).

The staggering terms of the Bates payout—reported to be $400 million in cash upfront and another $50 million in two years—is said to solve the problem around which the talks broke down five months ago (AA, Dec. 16).

At that time, Bates chairman Bob Jacoby reportedly walked away from the deal at about the same price level because he objected to Saatchi's typical payout structure on acquisitions, which involves cash upfront and future payments contingent on profit performance.

Sources indicate Mr. Jacoby will make $85 million to $100 million on the deal. But Mr. Jacoby, who retains his Bates title, as do other key executives, reportedly does not intend to leave and will be one of a group of executives tied into long-term contracts. Reports on this group's number varied from [illegible] to [illegible].

The purchase price will be about [illegible] times net earnings. Bates' pretax profits are said to be about $[illegible] million for the year ended last March 31, with net earnings about half of that.

There are about 200 Bates shareholders who will share in the proceeds. The book value for each of Bates' 400,000 Class A shares is said to be $[illegible] to $[illegible], according to various sources, who added that the purchase price will not [illegible] shareholder [illegible] that in the initial cash payment and another [illegible] years. Mr. Jacoby [illegible] another [illegible] of shares [illegible].

However, [illegible] would not shareholders [illegible] that it might [illegible] shares by [illegible] and Saatchi [illegible].

But [illegible] more than a decade [illegible] in Europe [illegible] that have sold or merged [illegible] shares in [illegible] Saatchi [illegible] to sell in order to [illegible] companies. With 1985 billings of $2.1 billion and [illegible] income of $[illegible] million, Saatchi is the fourth-largest ad agency in the world. Bates has [illegible] with hopes of raising capital for expansion. Like BBDO (AA, May [illegible]), Doyle Dane Bernbach, Needham Harper Worldwide, Ogilvy & Mather, and Saatchi and Saatchi, Bates has also been [illegible] agency networks [illegible] as well as [illegible] accounts. It is this [illegible] to find [illegible] such as [illegible]

(Continued on Page 107)

Top 10 U.S. agency super groups

Rank	Super group	Billings in 1985 Worldwide	U.S.
1	Saatchi & Saatchi Co. plc* (including Bates)	$7,592.4	$4,662.1
2	BBDO/DDB/Needham**	5,918.9	3,743.1
3	Interpublic Group of Cos.***	4,497.9	2,351.2
4	JWT Group	3,817.4	2,[illegible]
5	Young & Rubicam	3,575.5	2,[illegible]
6	Ogilvy Group†	3,[illegible]	[illegible]
7	Foote, Cone & Belding Communications††	2,191.6	1,[illegible]
8	D'Arcy Masius Benton & Bowles	2,[illegible]	1,353.1
9	Leo Burnett Co.	[illegible]	1,269.9
10	Grey Advertising	1,728.5	1,221.9

NOTE: Super groups include agencies and agency holding companies, but not units, of the parent companies in advertising. Table represents managed figures reported by agencies in the Agency Income Report (AA, March 27). Dollars are in millions.

* Includes Saatchi & Saatchi Co. plc as announced in 1985. Ted Bates Worldwide, including Frank Corporation, Bates & Spectrum and Dancer Fitzgerald Sample.

** Includes Needham & Association brought by BBDO, Doyle Dane Bernbach and Needham Harper Worldwide, the Kenny Shaughnessy Los Angeles group.

*** Includes Sales Motivation brought by Lee Connell Bowen, an IPG agency.

† Includes Ogilvy & Mather and Cole brought by S.H. Benson, Brown and Ogilvy advertising.

†† Includes Lintas (Elio Pagliara).

Top agencies ripe for picking?

SAATCHI & BATES

THE BIGGER BANG

Can the Saatchis afford to stop growing? *Page 68.*

More agencies ripe for picking? *Page 106.*

The direct-marketing shuffle. *Page 106.*

Saatchi bets on solving international conflicts. *Page 106.*

Bates deal tests Saatchi network strategy. Reaction from U.S. clients. *Page 107.*

Last Minute News

Riney jumps into Michelob fray

CHICAGO—Hal Riney & Partners this week will make a presentation on Anheuser-Busch's $40 million Michelob account, sources say. Ted Bates Advertising/New York currently handles. A-B for several months has been testing creative from Bates; D'Arcy Masius Benton & Bowles, St. Louis, and Needham Harper Worldwide here (AA, Nov. 25, *et seq.*). Riney last week officially was given several other A-B assignments that sources valued at $30 million *(see related story on Page 32)*. Separately, A-B will use "Dewey, you do me right" as the theme for its Dewey Stevens low-cal wine cooler (AA, May 5). Three network tv spots will break in midsummer, supported by radio and print. Bloom Agency, Dallas, handles.

Fox up and running with 'Down and Out'

LOS ANGELES—Fox Broadcasting Co. next March will start running a half-hour tv series adaptation of "Down and Out in Beverly Hills," the hit

(Continued on Page 8)

Icahn may cut O&M, eyes Y&R or DFS

By BRIAN MORAN

NEW YORK—Trans World Airlines chairman Carl Icahn may fire Ogilvy & Mather for the second time in little more than six months. Late last week the corporate raider was trying to decide whether to award the business to Young & Rubicam or DFS Dorland Worldwide.

Y&R was said to be the stronger contender for the account, by virtue of the agency's association with present TWA executives via its 1970s work for Eastern Air Lines. But a cadre of Mr. Icahn's personal advisers, including his wife, son, uncle and a friend, Sheldon Kravitz, a former executive at Lennen & Newell—all of whom were present during agency presentations May 8—were believed to be delaying the financier's decision.

Mr. Icahn, who unceremoniously fired O&M Oct. 23 in an attempt (which succeeded) to force the agency to work for reduced compensation, reportedly became dissatisfied with the agency's refusal to create advertising tailored to his demands. TWA insiders report that Mr. Icahn, eager to fill loss-ridden TWA's seats, favored price-oriented, retail advertising with a modicum of creativity. O&M, highly respected for its creative talents, reportedly made many concessions but could not swallow Mr. Icahn's terms whole.

"Ogilvy's philosophy was probably right for us—they wanted to maintain some level of creativity," said a TWA source. "But they dug their own grave by continuing to

(Continued on Page 110)

Four A's plans big for psa's

By CRAIG REISS and WILLIAM F. GLOEDE

NEW YORK—The American Assn. of Advertising Agencies on May 15 will announce a grandiose plan for the biggest public service ad campaign ever: An antidrug message put together by the top 50 agencies in the U.S. and backed by requests for free media time and space worth well over $1 billion over the next two years.

If the media, which already have been asked to be "partners" in the Four A's effort,

(Continued on Page 110)

NEWSPAPER

CONGRESSIONAL INFO SERVICE
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WASHINGTON DC 20014

HIGHLIGHTS

4A's offers antidrug plan 1

The American Assn. of Advertising Agencies this week will announce a grandiose plan for the biggest public service ad campaign ever: An antidrug message put together by the top 50 agencies in the U.S. and backed by requests for free media time and space worth more than $1 billion.

Nets upfront outlook grim 3

The tv networks began screening their new fall schedules for advertisers last week, and early reports from buyers and sellers reveal that the tv nets and advertisers are far apart on the price of prime time tv in 1986-87.

The risk of insurance 3

Product-liability insurance, once considered a routine operating expense, is playing a bigger role in marketing decisions. Soaring insurance rates, increasing litigation and multi-million-dollar court awards are contributing in some cases to growing tension between company sales/marketing arms and their risk managers.

Who's hot 4

Company advertising directors continue to rank J. Walter Thompson Co. and Ogilvy & Mather Worldwide as the nation's two best ad agencies, while Fallon McElligott Rice has emerged as the hottest agency, according to Advertising Age's latest quarterly survey.

RJR tests new cereal 12

RJR Nabisco will spend on a $30.7 million basis (nationally projected) in the West Coast test of Nabisco Fruit Wheats ready-to-eat-cereal. RJR unveiled its plans at the Food Marketing Institute's annual meeting and convention here last week.

Eenie, meenie, Riney gets mo' 32

Anheuser-Busch last week officially welcomed aboard Hal Riney & Partners, but left unclear which ship he will be steering. Riney, which earlier resigned its G. Heileman Brewing accounts to clear the way for its relationship with A-B, said it had been assigned both product and corporate advertising projects. Both the agency and spokesmen for A-B declined to specify which products the Riney agency will handle.

Quaker eyes rice cakes 72

Quaker Oats Co.'s decision to make a serious effort in the rice cake market puts it in a position to dominate an obscure food category known primarily to health-food purists.

Ad growth slows 76

Final returns for the year, according to a McCann-Erickson survey, show that advertising growth in 1985 was lower than projected in December and less than expected a year ago.

W-L hikes ad spending 88

Warner-Lambert's ad-spending ratio to sales has risen to 21.6% from 12.9% just five years ago, company officials said at the annual meeting here this month.

FEATURES

Glory days with Koenig 48

There was a time when Papert, Koenig, Lois could do no wrong. One great ad and tv commercial after another seemed to emanate from its offices, most of them Julian Koenig's work. But PKL is no more. Today, Julian Koenig can be found, most of the time, back in his office in the Delmonico Apartments at Park Avenue and 59th Street in Manhattan.

CATEGORY REVIEW

Ethnic haircare in mainstream 24

Black-owned marketers are being bested at their own game by mainstream health & beauty aids companies that have discovered black haircare products as the hottest segment of an indifferent market. The result: Ethnic allegiance and goodwill no longer are good enough for minority marketers to succeed in a market they pioneered.

INTERNATIONAL

Magazines scrap in Asia 68

Time and *Newsweek* are going head-to-head with new strategies to compete in the Asia-Pacific region, where a decade of rapid economic growth has spawned fierce competition among English-language publications.

Nestle makes exec changes 69

Nestle S.A. is boosting the importance of its North American operation in several management changes at its Swiss headquarters. Managing director Helmut Maucher is assuming direct line responsibilities for running Nestle in North America, partly due to Nestle's 1984 acquisition of Carnation Co.

OTHER NEWS

Pepsi-Cola Co. believes it has signed Michael Jackson for a song—at a reported $15 million—even though critics aren't convinced the contract is a thriller. Page 6.

When Unilever lost the bidding war for Richardson-Vicks, which went to arch-rival Procter & Gamble, the European-based multinational vowed to seek out another strong U.S. consumer products company. Page 46.

McCann-Erickson North America is going for the franchise with the creation of McCann-Erickson Regional Marketing, a subsidiary designed to build regional advertising business. The $17 million agency, embracing seven offices and headquarters in Atlanta, replaces M-E's Communications Counselors Network, an eight-city field office operation that has chiefly served Coca-Cola USA bottlers for the past 25 years. Page 76.

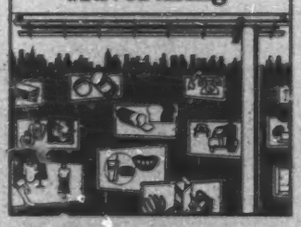
For Esquire Magazine Group, the launch of *New York Woman* means more than a sex-change operation. Not only is the every-other-monthly due out Aug. 21, a shift from *Esquire's* male orientation to the burgeoning women's magazine market, but it also marks EMG's entry into two other fertile fields, controlled circulation and regional publishing. Page 87.

Reports of the demise of the independent agency are greatly exaggerated, according to an informal survey of senior agency people attending the Western States Advertising Agencies Assn. As talk of the implications of the megamerger of BBDO International, Needham Harper Worldwide and Doyle Dane Bernbach Group dominated talk at the gathering, many western advertising executives stated their faith in the continued existence of the independent. Page 97.

NEXT WEEK: Advertising Age presents its first agency salary survey, conducted by Cole Surveys, Boston, showing compensation levels of top executives at various size U.S. agencies.

SPECIAL REPORT

Out-of-Home Advertising



Cut-of-home advertising has several talents, including the ability to reach highly targeted markets and to supplement other media for total market coverage. Another strength is its low cost-per-thousand impressions. Special Report looks at how the industry strives to sell itself to advertisers and some innovative uses of outdoor boards.

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BATF dries up athlete ad ban

By STEVEN W. COLFORD

Washington—In a move that could bring a major change to the way that beer and wine are advertised, the Bureau of Alcohol, Tobacco & Firearms is relaxing its restrictions on the use of active athletes in ads endorsing alcoholic beverages.

Brewers and wineries have not been formally notified of the agency's reassessment of its advertising guidelines, but Bruce Weininger, chief of the agency's industry compliance division, told Advertising Age that BATF now considers permissible beer and wine advertising that features athletes—active or retired—as long as the athlete is not shown consuming the alcoholic beverage and does not

(Continued on Page 105)

Cosby's image pays dividends

By BRIAN MORAN

New York—Bill Cosby last week began telling millions of tv viewers how E.F. Hutton & Co. is helping him become a shrewd investor.

Considering how Mr. Cosby engineered his spokesman deal with the troubled brokerage house, it's evident he hasn't fared too poorly on his own all these years.

When Hutton executives first approached the popular comedian in early spring, they proposed a partnership that would allow the brokerage to sponsor some Cosby live appearances around the country.

Hutton in 1983 had made a similar tour sponsorship deal

(Continued on Page 105)

West Coast news

Universal to test ads in Spanish

Universal Pictures, Universal City, Cal., has named Casanova, Pendrill Publicidad, Los Angeles, to test the effectiveness of Spanish-language advertising for three general market films. Starting this summer, the studio, a unit of MCA Inc., will place tv, radio and print ads aimed at Hispanics in Miami, Los Angeles and possibly Chicago, for "Legal Eagles," "Psycho III" and "Howard the Duck." Universal earlier severed a short-lived relationship with DJMC's Los An-

(Continued on Page 108)

U.S. NewsWatch

Marketing news from regional centers across the country

HOUSTON—**Art Casper**, chairman of Winius-Brandon Advertising, will resume his position as president-chief operating officer, replacing Dan Japhet, who was fired. Mr. Japhet was named to those posts Feb. 21. Mr. Casper, who remains chairman, cited "differences in management style" as the reason for the change.

CHICAGO—**Chicago Air**, a new commuter service based at Midway Airport, breaks its first radio, newspaper and outdoor ads May 14. The $1.8 million campaign is themed "A breeze to the Windy City and beyond." Wagner & Associates handles.

BALTIMORE—**Luskin's**, a 50-unit electronics and appliance retailer, last week returned its $3 million broadcast media buying in-house after six months with Eisner & Associates. Eisner continues to handle creative for special assignments. Luskin's tv and print budget is $10 million.

FRESNO, CAL.—**California Table Grapes Commission** is breaking tv and radio spots this month in the U.S. and Canada. Ads recreate the Garden of Eden. In the ads, Eve tempts Adam with

(Continued on Page 90)

AGENCY WATCH

JWT and Ogilvy still top ad directors' rankings

FMR called 'hottest' shop

By CHARLOTTE FLANAGAN

Company advertising directors continue to rank J. Walter Thompson Co. and Ogilvy & Mather Worldwide as the nation's two best ad agencies, while Fallon McElligott Rice has emerged as the hottest agency, according to ADVERTISING AGE's latest quarterly survey.

In the January-to-March polling period, 6.6% of respondents named JWT as the best agency. Ogilvy was next with 6%. The difference between the two is not statistically significant.

Only one mention separates the two agencies in the cumulative Agency Watch results, which cover the five quarters since the survey began in October, 1984. (There was no survey in the fourth quarter last year.)

Ogilvy has received 110 mentions to date, equal to 7.4% of the 1,496 ad directors surveyed, and JWT has been named by 109 respondents, or 7.3% of the total.

Agency Watch is conducted for AD AGE by SRI Research Center Inc., Lincoln, Neb. In each survey period, SRI questions by telephone a random sample of 300 ad directors of companies with $25 million or more in sales.

The survey isn't limited to large advertisers in New York, Chicago and other principal agency cities, but questions ad directors in each of the 20 largest U.S. cities. Presumably, a poll of this sort, if confined to New York-based advertisers, or advertisers concentrated in any other major market, might produce different results.

In the best-agency questioning, respondents are asked, "Which ad agency, regardless of size, provides the best over-all services and products to its clients?"

They are allowed to name up to three agencies. Each mention is counted as one vote, whether or not it is the respondent's first choice.

In the latest Agency Watch survey, BBDO International was third, named by 4.3% of respondents, while Leo Burnett Co. and Foote, Cone & Belding Communications were named by 4% and 3%, respectively.

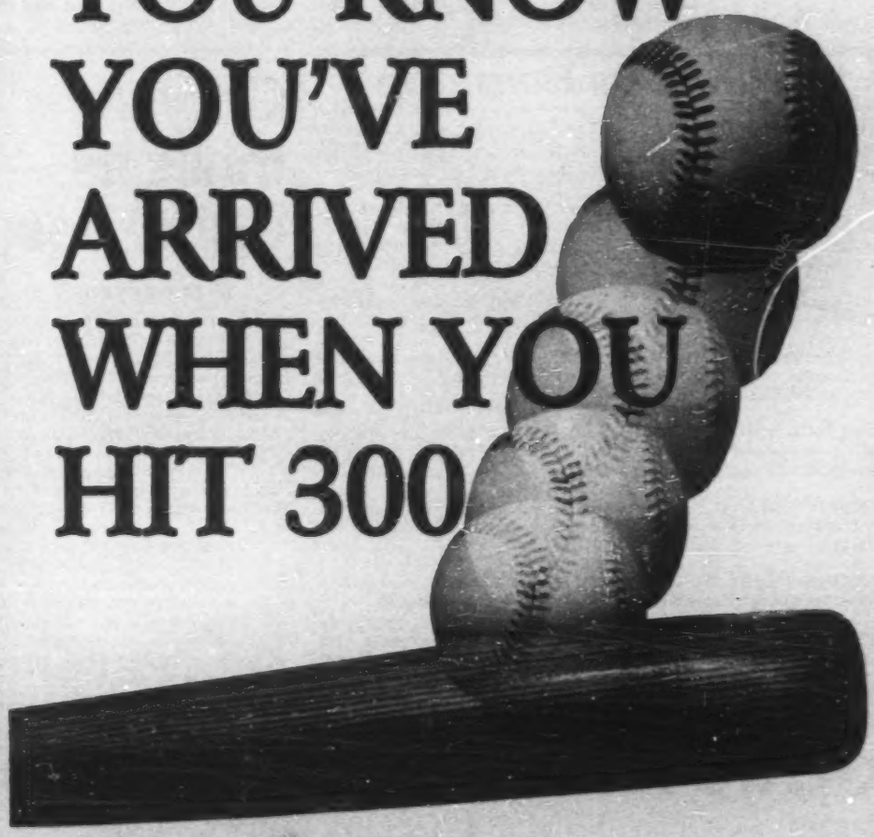
In cumulative results, Young & Rubicam, named by 4.2% of respondents, ranks third, followed by BBDO (3.9%) and Burnett (3.1%).

Other agencies named by 2% or more of the people surveyed to date are Bozell, Jacobs, Kenyon & Eckhardt (2.5%); Foote, Cone & Belding (2.2%); Doyle Dane Bernbach Group (2.1%); McCann-Erickson Worldwide (2.0%), and Chiat/-Day (2.0%).

JWT continues to dominate in top-of-mind agency awareness, though its score fell in the January-to-March survey. Asked to name the agency that first comes to mind, 21.6% of the respondents named JWT. The agency was named by at least 25% of mentions in each of the previous four quarters. Following JWT in awareness were Ogilvy & Mather (14.6%); BBDO (12.3%); Young & Rubicam (10.3%), and Doyle Dane Bern-

(Continued on Page 74)

YOU KNOW YOU'VE ARRIVED WHEN YOU HIT 300



Just as batting .300 is a measure of considerable achievement, so is breaking the 300,000 circulation milestone. Long over 300,000 in Sunday circulation, The Orange County Register has now reached this true measure of a metropolitan newspaper on a daily basis, with daily circulation of 300,985.

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(Publisher's Statement March 31, 1986, as submitted to ABC)

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THE DISCOVERY CHANNEL

Pepsi, Jackson start 'relationship'

Not just a $15 million endorsement

By JUDANN DAGNOLI

PURCHASE, N.Y.—Pepsi-Cola Co. believes it has signed Michael Jackson for a song—at a reported $15 million—even though critics aren't convinced the contract is a thriller.

The pact (AA, May 5) buys "a relationship" rather than an endorsement, said Pepsi-Cola president-ceo Roger Enrico, in announcing the deal last week.

Mr. Enrico moved up to Pepsi-Cola president-ceo, a previously vacant post, from president-ceo of Pepsi-Cola USA, the franchised bottling unit in the U.S., in a management realignment last week following the expected retirement of PepsiCo chairman-ceo Donald Kendall.

Mr. Enrico also noted that the price tag, which he would only put at somewhere between $5.5 million and $15 million, was "the most money paid for any relationship of this kind."

Mr. Jackson will compose two pieces of original music for Pepsi and appear in three commercials, two in English and one in Spanish, Mr. Enrico said. The spots will air worldwide next year.

In 1988, the performer will act as creative consultant to Pepsi and perhaps direct a commercial.

Mr. Jackson's first Pepsi song will be included on his next album.

The contract does not require Mr. Jackson to hold, drink or come into contact with Pepsi, a company spokesman said.

Mr. Enrico explained that the U.S.' No. 2 cola marketer "never asked him to drink Pepsi," only to "create events."

Mr. Jackson has proven ability to boost Pepsi sales, the company said. It contended that sales rose 8% within 30 days as a direct result of the last Jackson campaign.

"Investments like this do indeed pay off," Mr. Enrico asserted. He said Mr. Jackson's presence will render Pepsi spots zap-proof.

The radio and tv spots will be longer than 30 seconds, he said, and will break in January, probably during the Grammy Awards show. The campaign does not include print advertising.

Pepsi signed a $5.5 million package with Mr. Jackson in 1984 that included commercials and sponsorship of his Victory Tour. The company would not say whether the new package includes any tour sponsorship, but other sources confirmed tour rights are included.

The new contract also provides for special events and Mr. Jackson's possible appearance in special advertising or in-person appearance during Pepsi-Cola's Goodwill Games sponsorship this July in Moscow, these sources said.

As to reports that Mr. Jackson was involved in sponsorship negotiations with Atlanta-based Coca-Cola Co., a Pepsi spokesman said that, to his knowledge, the stories were false. New York-based Rockbill, which negotiated the Pepsi package, said it never talked to Coca-Cola on Mr. Jackson's behalf.

Photo by Arnold Adler

Michael Jackson (r.) poses with Roger Enrico, president-ceo, Pepsi-Cola, and dozens of advertising awards for previous Pepsi/Jackson spots. It was, Mr. Enrico said, the first time Mr. Jackson had seen all the awards the campaign won.

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Everything old again is new

Coca-Cola Co. has introduced a new version of its Coke logo, designed to give its products a more uniform look. The updated calligraphy was unveiled during the product's 100th anniversary celebration last week. The week's events, which carried a $1 million price tag, included a party for bottlers from each continent and a parade in Atlanta, the company's headquarters.

CORRECTIONS & CLARIFICATIONS

• Gains and losses in advertising awareness were transposed in the March adWatch chart (AA, April 28, P. 93). The correct figures for percentage change in share of first mentions since February are as follows: TWA, up 6.1 percentage points; Tylenol, up 3.0; McDonald's, up 2.8; Levi, down 2.9; Tide, down 3.2; Folgers, down 4.5; Kodak, down 4.7, and Burger King, down 7.7.

Mount Gay Rum, Buick and Drexel Burnham discovered treasure in....

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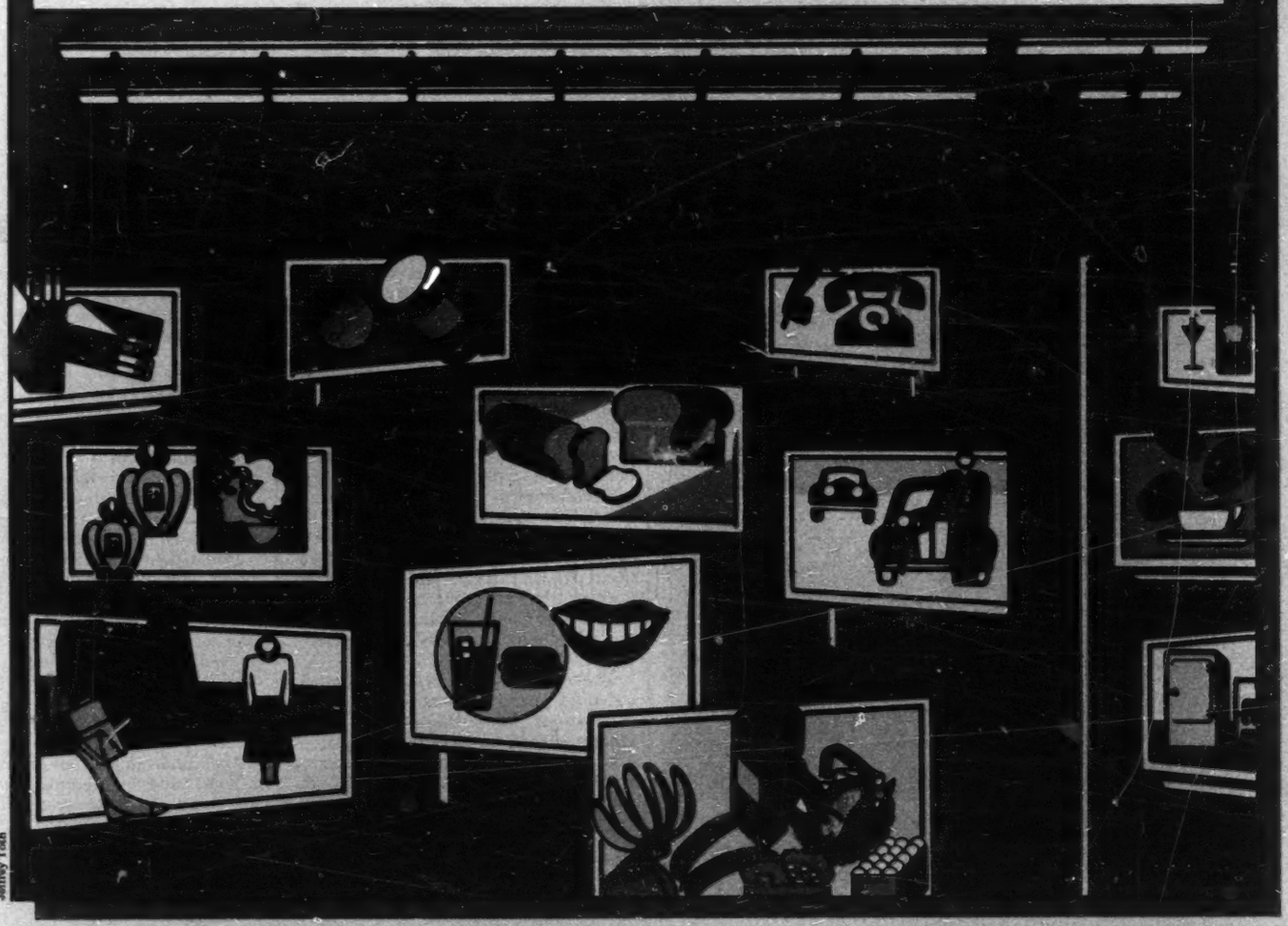

Jeffrey Toth

Segmentation attracts new product categories

By Richard Edel

For many years, the out-of-home medium was advertising's ugly duckling. Virtually ignored during corporate and agency media planning, it would waddle in at the tail end of budget assignments to pick at the crumbs.

But as advertisers seek new alternatives in an era of declining network tv audiences and demographic changes that include a dramatic increase in the number of working women, out-of-home is emerging as a viable medium.

Its ability to reach highly targeted markets and to supplement other media for total market coverage are among the factors pushing advertisers to the great outdoors.

Richard Edel is a frequent contributor to Special Report.

But the key trend is audience segmentation, says Eugene Morris, senior vp at Burrell Advertising, Chicago. "There is greater awareness today of segmentation in the advertising industry, period. As a result, advertisers are rethinking media decisions, looking for media that deliver the female segment, blacks, baby boomers or elderly consumers," he says.

Out-of-home scores well on segmentation, says Alice Vantrease, president of Creative Marketing Services, Augusta, Ga. By nature, it permits geographic targeting of specific groups. And it has the added advantage not only of reaching target audiences, but also frequently exposing them to the ad message. The icing is that out-of-home has the lowest cost per thousand impressions of any medium.

"Where radio and tv are frequency mediums, and newspapers and magazines are reach mediums, outdoor is both, and at the lowest cost," Ms. Vantrease says.

With these strengths, experts predict out-of-home media may soon be on the crest of a new wave in advertising. Sales revenue for the stan-

(Continued on Page S-2)

Inside:

Jumping on the bandwagon
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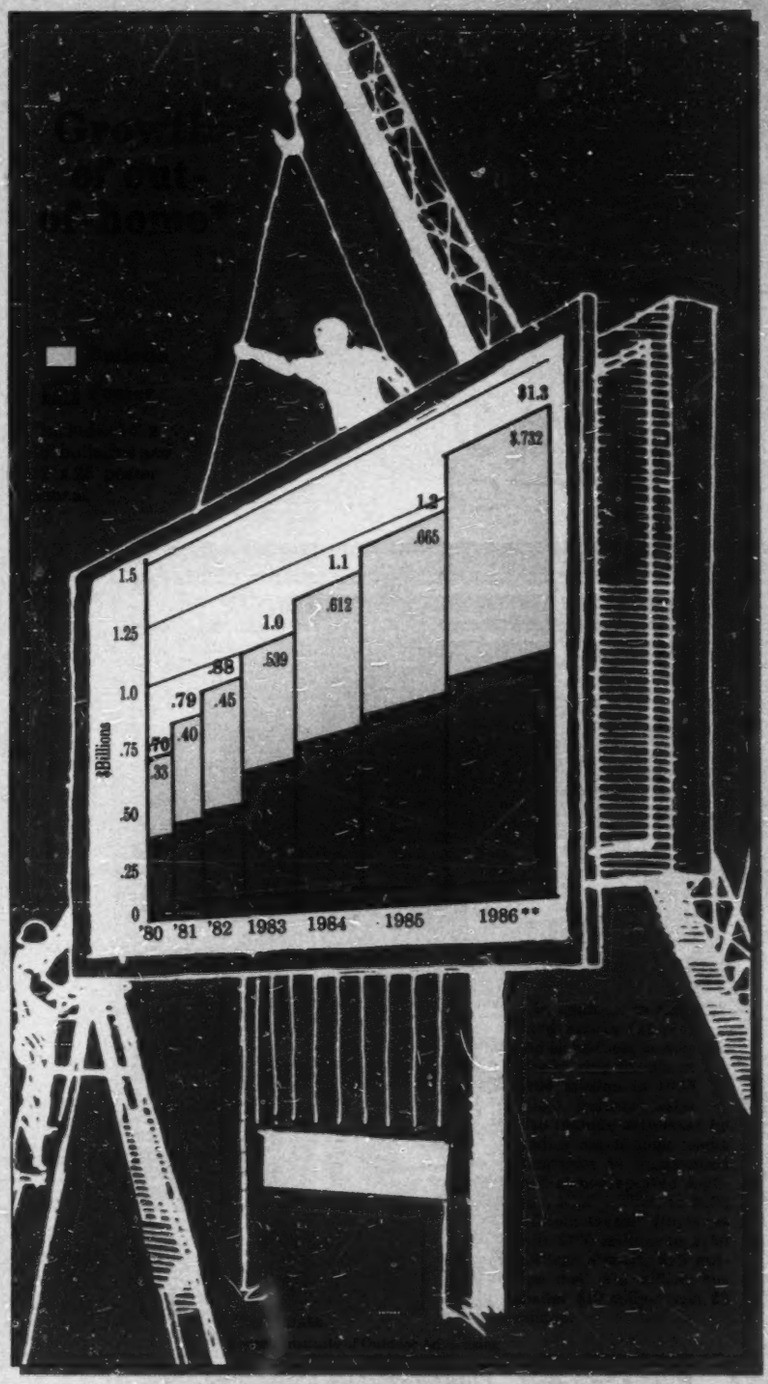


Attracting new categories

(Continued from Page S-1)

dard industry, which includes 30-sheet poster panels and painted bulletins, has grown 8% to 10% each year from $701 million in 1980 to $1.2 billion in 1985, according to the Institute of Outdoor Advertising, New York. Although out-of-home represents about 1% of spending for all media, its share has fallen slightly over three years.

Eight-sheet boards are on a faster growth track than 30-sheet, with estimated 75% growth since 1980 to 150,000 panels in 1985, says Ronald Waggener, executive director of the Eight-Sheet Outdoor Advertising Assn., Independence Mo.

But this medium represents only a small share of total out-of-home advertising. In 1985, eight-sheet board sales were $104 million, Mr. Waggener says.

Highway, transit, mall, and taxicab advertising accounted for about $400 million in 1985 sales, estimates Thomas C. Devine, marketing operations manager at 3M National Advertising Co., Bedford Park, Ill., a division of Minnesota Mining and Manufacturing, St. Paul, Minn. There is no independent means of verifying that figure.

Before any real growth, however, the industry has to begin effectively selling itself and educating prospective advertisers, industry sources say.

"Out-of-home right now is like a lost child in the wilderness," Ms. Vantrease says.

One factor expected to infuse out-of-home with new vigor is the industry's move to replace old-style outdoor boards constructed on unattractive scaffolding with bulletins that rise cleanly from a single pole. This is a critical factor in attracting new advertisers to the medium, outdoor executives say.

Technological innovation is another factor that could change the face of the industry. An announcement is expected within six months on a computerized, robotic painting device now being developed by a private group headed by John Kluge, chairman of Secaucus, N.J.-based Metromedia Inc. A similar device is being developed by 3M.

The robotic device would allow encoded designs to be wired to any number of locations, where the machine would create painted bulletin-size, magazine-quality reproductions in a matter of hours. With these capabilities, bulletins could be posted for shorter intervals, possibly a week as opposed to the standard 30 days, and their quality would not vary according to the skills of local painters.

Another factor changing the medium's face is the increasing level of marketing sophistication in larger companies such as Foster & Kleiser, Gannett Outdoor and Winston Network.

Additional change comes from mergers and acquisitions bringing new names into the business.

"We're seeing a metamorphosis of the industry from mom-and-pop outfits to an industry owned by national and international groups," says Gerard Joyce, president of Patrick Media Group, Scranton, Pa. "We're seeing a new breed of owners who have new insights into marketing to specific groups. We're just starting to feel the effects of that."

Mr. Joyce is an example of the new breed. In April, he signed a definitive agreement with Metromedia for the $710 million purchase of its Los Angeles-based Foster & Kleiser unit, the industry's largest outdoor company with 45,000 boards in 19 markets and annual revenues of $212 million in 1985.

Gannett Outdoor, the nation's second largest outdoor company with 15 markets, had 1985 revenues of $207 million.

Another example is Morris Communications, Augusta, Ga., a growing publisher of 18 newspapers in seven states, which bought Naegele Outdoor that covers about 400 cities and has an estimated $100 million in annual sales making it one of the top five outdoor companies.

Further impact on the use of out-of-home is expected from the June, 1985, merger of R.J. Reynolds Industries and Nabisco Brands and the September, 1985, acquisition of General Foods by Philip Morris Inc. These changes have the potential to dramatically increase the level of out-of-home advertising by package goods companies, Mr. Joyce says.

Media planners for the tobacco companies have long experience with out-of-home, he says.

"If we could just get some of the crumbs from package goods advertising, we could double our industry's revenues overnight," Mr. Joyce says. "We've had a very warm reception and we are maximizing the possibility of heretofore nonusers becoming heavy users."

In addition to package goods, the out-of-home industry recorded dramatic in-

(Continued on Page S-16)

Outdoor Network strives to post increasing sales

Falling revenue from cigaret and liquor advertising has put the out-of-home industry in a race to market itself to potential new advertisers.

The starter pistol sounded in September, 1985, with the creation of Outdoor Network USA, an affiliation of 29 outdoor companies with coverage of 85% of the U.S., organized and represented by New York-based Gannett Outdoor, a division of Gannett Co., Arlington, Va. But even as the network's billings topped $10 million in April, it has critics.

The concept behind Outdoor Network is to ease the process of making national out-of-home media and production buys through regional outdoor companies.

A media buyer makes one phone call, receives a single contract and pays one invoice. Even the psychology of its name plays a role in its marketing.

"The choice of the word 'network' was no accident," says Donald Davidson, president of Gannett Outdoor. "We wanted to show that we can provide sales services through our affiliates, much the same as NBC, ABC and CBS do with theirs."

Not everyone agrees that the network idea is new or even makes sense.

Martin Mullany, president and chief executive officer of Out-of-Home Media Services, New York, says his company and its predecessor, National Outdoor Advertising Bureau, have provided the same service since 1916. And not owning outdoor plants, his company is able to make the best media buys, not just those from companies participating in the network.

"Gannett is a vendor, just like ABC. Would you go to ABC to buy your television? You tell me how stupid that sounds. It's almost laughable," Mr. Mullany says, adding that otherwise, he thinks highly of Gannett and other members of the network.

Because the network is placing ad dollars with its members, it is unlikely to seek competitive pricing or to provide objective analysis of the best buys in each market, Mr. Mullany says.

"The whole thing really is a sales tactic. I think Outdoor Network is going to evolve into a selling organization," he says. "It has to change. Advertisers aren't that stupid."

But Richard Condon, president of Naegele Outdoor, a network member, defends the concept, saying advertisers are free to place ads anywhere they want. The network is a convenience and a tool to promote the industry, he says.

"It takes a lot of people on the street to sell the concept of outdoor advertising."

Terry Myers, national sales manager with Turner Outdoor, Atlanta, also a network member, agrees.

"It's hard for us to be involved [in marketing outdoor] on a national basis when we don't have representation in New York, Chicago or Los Angeles where the major companies and agencies are located.

"The key for outdoor on a national basis is just getting into the media mix," he says.

To facilitate this, Gannett is creating business development groups solely to target potential new advertisers and a national creative department to advise them on the use of out-of-home media, Mr. Davidson says. But he recognizes that these efforts are but wobbly first steps in the struggle to convince media planners that out-of-home deserves a place in the marketing mix. Real change takes time.

"Major advertisers don't change their media plans overnight," he says. "We don't expect to make a profound difference in a few months, but as the snowball rolls down the hill, who knows?" Mr. Davidson says.

The biggest hurdle will be reorienting the industry's sales approach from one that now resembles order-taking to one that focuses on marketing, he says.

—*Richard Edel*

Campaign hams it up

(Continued from Page S-15)

The magic of this program is in the creativity of the outdoor advertising. We use plays on words and clever illustrations. We wanted to make friends with the market using outdoor advertising."

The puns used in Fischer's outdoor advertising are famous in the region.

One depicts a cracked egg with a slab of bacon between the halves accompanied by the slogan "Pullet Surprise" and is run the same month that Pulitzer Prizes are awarded.

The ad that runs during the Kentucky State Fair features a juicy hotdog laced with mustard and the tag line "Kentucky State Fare."

Robert J. Beggs, previously senior vp at Doe-Anderson—he recently moved to another agency—was chief resident punster for 22 years on the Fischer campaign. "And he talks like that too," Mr. Allison says. "But it's a high visibility campaign and in our agency a number of people have joined in contributing."

The outdoor campaign uses other humorous techniques as well.

What Mr. Allison calls the two "classic" Fischer boards—and the only two that are repeated seasonally—exemplify the long-running campaign's ability to humor its audience while selling its product.

The first of these two boards appears around Thanksgiving and depicts a turkey fearing for its life and imploring the public to "Serve Fischer's ham, please!" for the holidays.

On the day after New Year's, the same turkey appears on a new outdoor board in a party hat standing among falling confetti. His happy message: "Happy New Year, Fischer's ham lovers."

One series of outdoor boards, which has appeared twice in the campaign's 20 years, consists simply of the Fischer logo and the sentence: "Our 24 kinds of lunch meats make tasty *orderves*."

The next week, the word *orderves* is crossed out and respelled as *hordervs*. The third week it is crossed out again and spelled *hor durves*. The fourth week, it's crossed out for the last time and replaced with the word "snacks."

This series draws public reaction, Mr. Allison says. "People call into the switchboard and say, 'You've misspelled it again.' And we just say, 'Thanks, we'll fix it.'"

Doe-Anderson produces four to six new boards a year, and several are to be introduced this spring and summer.

One shows an appetizing picture of a hot dog with the tag line, "Good dog, good dog." Another depicts a tempting club sandwich with the tag line, "Mellwood bacon belongs to all the best clubs."

The Fisher campaign is not all fun and puns, however. Doe-Anderson is quite serious in its aggressive pursuit of new boards. Currently, the outdoor campaign consists of 55 outdoor billboards.

Fifty-two of these messages are 30-sheet posters appearing on major roads; three are painted bulletins and are rotated among three expressway locations.

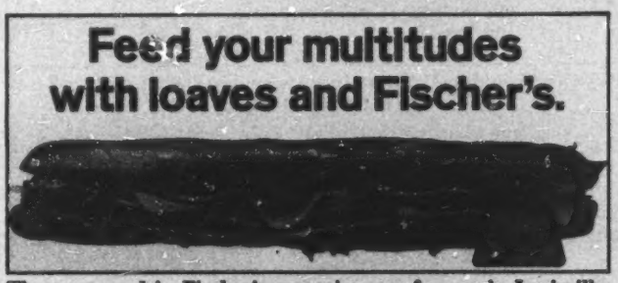
Despite the exceptionally long duration of the campaign, the company has not expanded its outdoor advertising as it would have liked because of high costs, Mr. Allison says.

Fischer is spending more than ever on outdoor advertising, although Mr. Allison declined to release any figures.

"The cost of reproduction is a key factor," he says. "That has continued to go up, as you might imagine. And when you're talking about outdoor advertising, you don't have a lot of quantity savings."

Still, Mr. Allison says, the Fischer campaign's seniority has helped to get strategic locations for the outdoor boards.

"We've had to cut considerably over the years, but what we've gained is we've been able to improve the position by being there all those years. When a new location comes along—a better location—Fischer is standing in line and gets it."



The puns used in Fischer's campaign are famous in Louisville, Ky., and several surrounding states.

Appalachian

APPALACHIAN POSTER ADVERTISING

P.O. BOX 347
LENOIR, N.C. 28645
(704) 728-4269

- Poster Panels
- Painted Bulletins
- Single Pole Structures

We offer the best in Outdoor Advertising to Western North Carolina.

Attracting categories

(Continued from Page S-2)

creases in 1985 by companies involved in the retail and health-care categories.

Revenues from retail advertising for 30-sheet posters and painted bulletins jumped 62% in 1985, to $77 million, up from $47.4 million in 1984.

Healthcare spending reached $22 million in 1985, more than doubling the $10 million spent in 1984, according to the IOA.

"Any one of these three categories could outweigh tobacco and liquor combined in the coming years," Mr. Joyce says.

Retailers, in particular, are shifting more cooperative ad dollars to out-of-home, where they are being used for targeted buys, says Mike Horen, principal with the Co-op Advertising Information Service, Ramsey, N.J.

"National advertising doesn't sell products, it sells brands. Merchandise is sold on the local level with co-op advertising," he says.

"Anytime you see a retailer advertise anything by brand name, he's got some help," Mr. Horen says.

One reason retailers are turning to out-of-home is its low cost. Retailers typically receive 3 cents on the dollar from vendors for co-op advertising. Co-op funds accounted for 10%, or $120 million, of the outdoor industry's 1985 revenues, according to Creative Marketing Services.

But retailers are finicky, says Tom Waldkirch, product manager of outdoor advertising for Perry/Gugler, Milwaukee, a printer of outdoor posters.

"Retailers will use as many co-op dollars as they can get as long as the product being displayed is a traffic builder," Mr. Waldkirch says.

Retailers also are demanding, and getting, larger imprint areas for their own name and message, he says.

"You've got to make the retailer feel involved in the program, or he's not going to spend the co-op funds," he says.

The importance of co-op is not lost on Baton Rouge, La.-based Lamar Corp., which covers 550 cities in 15 states. Fully 21% of Lamar's $60 million in revenues for fiscal 1985, ended Oct. 21, were from co-op programs.

In 1986, co-op revenues at Lamar could account for 25% of gross revenues, says Tracy Field, director-marketing research and co-op advertising.

Lamar is one of the few outdoor companies that tracks co-op spending, and its findings are eye-openers. For example, in Paducah, Ky., 52% of outdoor revenues are from co-op, while in Dayton, O., it's about 15%. Baton Rouge is more typical in the 18% to 20% range, Ms. Field says.

Lamar began tracking co-op in 1984 when revenues plunged for tobacco and liquor ads. The company's effort to tap every available co-op dollar has paid off so well that Lamar operates a toll-free hotline to act as a clearinghouse for information about co-op programs and to keep tabs on client accruals.

Tobacco advertising has been the out-of-home industry's mainstay since cigaret advertising was banned from tv in January, 1971.

However, social trends in health and fitness have undermined the markets for cigarets and liquor, out-of-home's second leading category, resulting in advertising cutbacks.

Where tobacco in 1980 represented 43%, or $301 million, of the 30-sheet and painted bulletin's $701 million in revenues, it accounted for only 31%, or $378 million, of the industry's $1.2 billion in 1985 revenues. Likewise, alcoholic beverage advertising fell from 19% of industry revenues in 1980 to 11% in 1985, all according to the IOA.

While tobacco and liquor industries still rank first and second in dollars spent on out-of-home media, the industry is weaning itself from their influence by aggressively seeking a broad base in new ad categories, such as retail, business-to-business, consumer service, healthcare and package goods.

But giving up liquor and cigarets isn't easy, especially when these companies regularly make large buys in major markets.

"The cigaret and liquor business has been a godsend, a blessing financially," says Richard Condon, president of Naegele Outdoor Advertising.

"By the same token, it has made our management people and sales staff lazy and lax. We have really forgotten how to work for business and how to sell.

"We're going to have to become people who market the out-of-home product," he says.

Most outdoor executives agree that the real problem has been an industry failure to market out-of-home to leading advertisers, rather than a failure of advertisers to consider it.

Education is the answer to convincing agencies and advertisers how to plan for using outdoor, says Richard Asch, Asch Advertising, New York, an agency specializing in out-of-home.

With all the positives going for out-of-home advertising, it should be integrated into marketing plans as a matter of course, not accident, he says.

"The big spenders are taking a real hard look at the audience erosion of tv," Mr. Asch says. "If their media planners are conscientious, they'll look at alternative media, such as out-of-home."

Associate editor/production editor Pat Gray Thomas coordinated this report on Out-of-Home Advertising.

Coming

Next week ADVERTISING AGE's will present its annual **Research Business Review**.

AN EXCITING NEW ADVERTISING VEHICLE

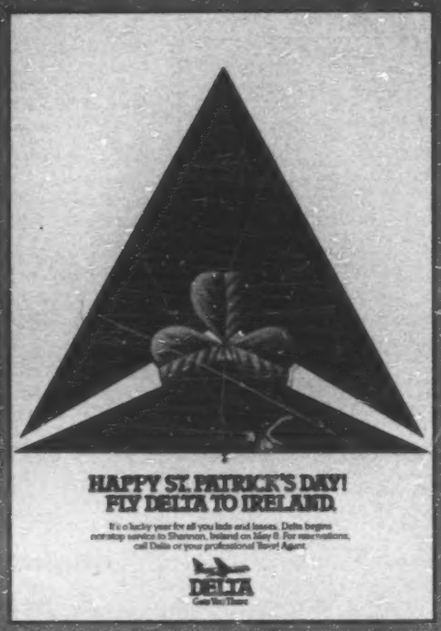
Ads on Cabs

✓ Exciting, New Window Graphics ✓ More Flexibility Than Billboards ✓ Educated and Affluent Audience ✓ Reach and Frequency ✓ Efficiency and Affordability

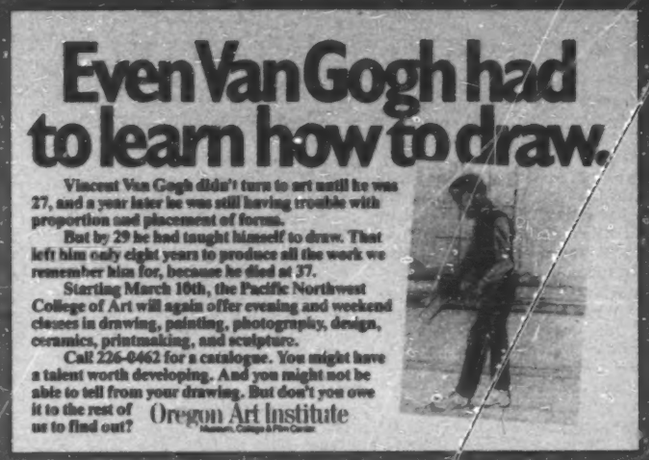
THAT WILL DRIVE YOUR MESSAGE HOME

BEST OF PRESS

A good marriage of art and copy made this ad for Drexel Burnham Lambert via Chiat/Day, New York, a Best of Press selection. Creative director: Jay Chiat; copywriter: Amelia Rosnar; art director: Sal Devito; photographer: Jerry Friedman.



Excellent use of color drew our attention to this announcement of nonstop service from Atlanta to Shannon, Ireland, on Delta Air Lines, via BDA/BBDO, Atlanta. Creative director: Elliott Manketo; art director: Bill Bierman; copywriter: Joan Larman; artist: Ian Greathead.



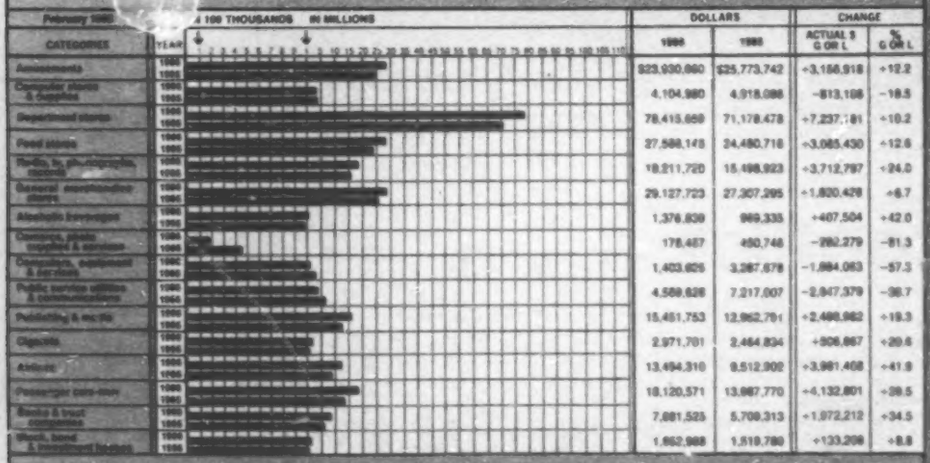
The headline in this ad speaks for itself, especially considering the cost of the Oregon Art Institute. The ad was created by Wieden & Kennedy, Portland. Creative director: Bill Bernbach; art director: Terry Wahlhelder; copywriter: Pamela Sullivan; illustrator: Vincent Van Gogh.

Best of Press selections are made by a committee of three: Hank Simons, vp-creative director of the Newspaper Advertising Bureau; James Dunaway, vp-information at the bureau, and William F. Glaede, Advertising Age's newspaper industry reporter. National Systems Inc., St. Louis, provides raw sheets to the Newspaper AdverCing Bureau for much of this work. Agencies, clients and newspapers are invited to submit ads for review. Submissions should be sent to Mr. Glaede in AA's New York bureau.

This fund-raising ad for the American Red Cross, created voluntarily through the Ad Council by J. Walter Thompson USA, uses a simple graphic and headline to make a strong appeal for contributions. Art director: Richard Crofland; copywriter: Andy Warner.

Advertising as a social statement in this ad for Audi from Doyle Dane Bernbach, New York. It's only one of several in the campaign, all of which were Best of Press candidates. Art director: Ron Louie; copywriter: Bonnie Foister; illustrator: Jim Stevenson.

FLASH F[illegible]: Newspaper advertising investment for February



February 1986	DOLLARS		CHANGE	
CATEGORIES	1986	1985	ACTUAL $ G OR L	% G OR L
Amusements	$23,930,660	$25,773,742	+3,156,918	+12.2
Computer stores & supplies	4,104,980	4,918,088	−813,108	−16.5
Department stores	78,415,659	71,178,478	+7,237,181	+10.2
Food stores	27,596,148	24,480,718	+3,085,430	+12.6
Radio, tv, phonograph, records	19,211,720	15,498,923	+3,712,797	+24.0
General merchandise stores	29,127,723	27,307,295	+1,820,428	+6.7
Alcoholic beverages	1,376,839	969,335	+407,504	+42.0
Cameras, photo supplies & services	178,467	460,746	−282,279	−61.3
Computers, equipment & services	1,403,625	3,287,678	−1,884,053	−57.3
Public service utilities & commissions	4,569,628	7,217,007	−2,647,379	−36.7
Publishing & media	15,461,753	12,962,791	+2,498,962	+19.3
Cigarets	2,971,701	2,464,834	+506,867	+20.6
Airlines	13,494,310	9,512,302	+3,981,408	+41.9
Passenger cars-new	18,120,571	13,987,770	+4,132,801	+29.5
Banks & trust companies	7,681,525	5,709,313	+1,972,212	+34.5
Stock, bond & investment houses	1,652,988	1,519,780	+133,208	+8.8

The Flash Report of newspaper advertiser investments, compiled for Advertising Age by Media Records, is derived from tabulations that cover 29 dailies and 23 Sunday editions in 15 cities: Atlanta, Baltimore, Boston, Cincinnati, Chicago, Cleveland, Dallas, Denver, Detroit, Los Angeles, New York, Philadelphia, San Francisco, Washington and Youngstown.

Source: Media Records Inc.

Newspaper $ up 10.6%

NEW YORK—The ADVERTISING AGE Flash Report of Newspaper Advertising Investments shows advertiser spending in major-market daily newspapers in 16 categories grew 10.6% in February from the year-ago month.

Leading the gainers in dollar volume were department stores, up 10.2% to $78.4 million.

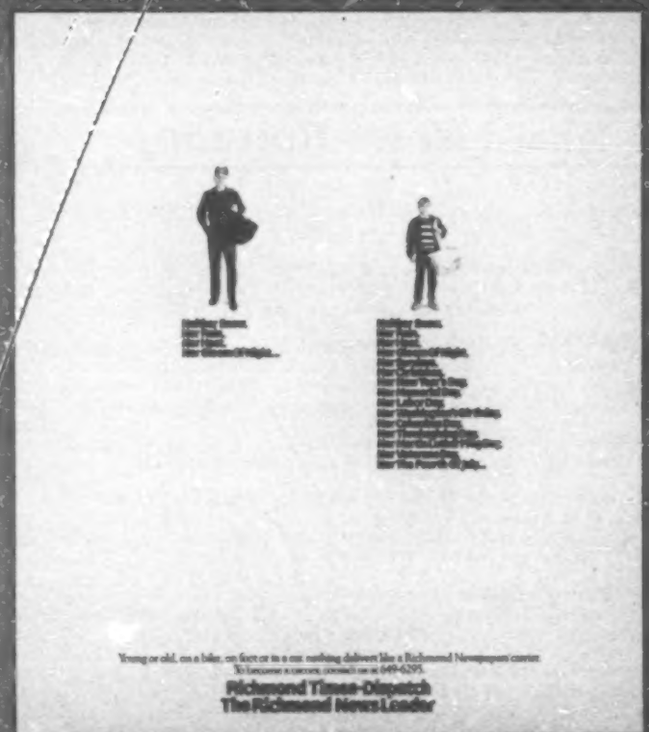
Also up among the large retail categories were general-merchandise stores, up 6.7% to $29.1 million, and food stores, up 12.6% to $27.6 million.

Other categories posting large gains were publishing and media, up 19.3% to $15.5 million; airlines, up 41.9% to $13.5 million; new passenger cars, up 29.5% to $18.1 million, and banks and trust companies, up 34.5% to $7.7 million.

Among other gaining categories were amusements, up 12.2% to $28.9 million; radio-tv-phonograph-records dealers, up 24% to $19.2 million, and alcoholic beverages, up 42% to $1.4 million. Also going up were cigarets, up 20.6% to $3.0 million, and stock, bond and investment houses, up 8.8% to $1.65 million.

Declining categories included computer stores and supplies, down 16.5% to $4.1 million; computers, equipment and services, down 57.3% to $1.4 million; public service utilities and commissions, down 36.7% to $4.6 million, and cameras, photo supplies and services, down 61.3% to $178,467.

The Flash Report is prepared for ADVERTISING AGE by Media Records Inc. based on SAU inch measurements of advertising in 29 daily and 23 Sunday newspapers in 15 major markets.



Saatchis

(Continued from Page 68)

payment with further earn-out payments, usually spread over five years and linked to the acquired company's future profits. Saatchi executives estimate the company will have to pay $120 million during the next five years if profit targets are reached. Analysts at London stockbroker James Capel put the deferred payments considerably higher at $150 million. Both estimates were made before the purchase of B&S—for $50 million initially and up to $50 million in deferred performance-related payments—and several earlier acquisitions.

• Saatchi has to live up to a dazzling performance in 1985, when pretax profits rose by 121% to $50.2 million. This year, analysts are forecasting pretax profits of $39 million for the six months ended March 30 (the official results have not been announced) and $101 million for the year ending in September.

"If Saatchi wants to maintain earnings-per-share growth, they have to acquire something because organic growth is unlikely to achieve it," Mr. Johnson said. "If Saatchi slips under 20% earnings-per-share growth, the stock will become unpopular."

The question often raised about Saatchi is whether the group can maintain a high growth rate over the long term and, if not, whether a slowdown or a poor year would spell disaster given the future financial commitments and the high expectations surrounding the group.

"The protection for Saatchi is that if profits don't go up, they don't pay [deferred payments] anymore," said a New York-based consultant. "The standards are usually pretty stiff—like 12% to 15% a year. If Saatchi acquired a business for 10 times earnings and the business doesn't grow, it's disappointing but not a financial disaster."

For example, Saatchi bought the Hay Group, a U.S. management consulting group with 100 offices in 27 countries, in December, 1984, for $100 million. Hay gets up to $25 million more after 1987 if pretax profits have averaged at least $21.5 million for three years. If the average per year is less than $16.5 million, Hay gets nothing.

One pitfall is the earn-out arrangement encourages the sellers to run companies to maximize short-term growth and profit, said the New York consultant. Another problem is that Saatchi's efforts to build management in with golden handcuffs do not always work—the three principals at Yankelovich, Skelly and White, now renamed YSL, left soon after the purchase by Saatchi.

"I think Saatchi is too big and well diversified to suffer if one or two divisions don't deliver the results planned," said Grieveson Grant's Mr. Johnson.

The Saatchi & Saatchi holding company, of which Charles Saatchi, 42, and Maurice Saatchi, 39, own a total of 10%, is the darling of London's financial community.

"I don't think American agencies have paid the same attention to shareholders and institutions as the Saatchis have ever since they had a public quotation," said Ron Leagas, a former managing director of Saatchi in London.

Saatchi also has embraced the concepts of globalization and diversification as though the Saatchis invented them.

"American agencies were doing it for years but not telling anyone," Mr. Leagas said. "Saatchi has stolen their thunder."

Under the diversification strategy, Saatchi's consulting division now accounts for 30% of total revenue and 29% of profits before tax, with the communications division still representing 70% of revenue and 71% of pretax profits. Saatchi in 1985 earned 62% of revenue in the U.S. and only 24% in the U.K.

In a recent statement, Saatchi said the group now has a management team capable of running a business several times larger than Saatchi's current size.

"Saatchi has an absolutely unbounded, avaricious desire to be the biggest in everything they do," Mr. Leagas said. "They don't see any reason why they should be second best at anything."#

Which agency is best

Based on a poll of a random sample of 300 advertising directors per quarter, at companies with $25 million or more in annual sales. Source: SRI Research Center

	1st Qtr. 1986 (%)
1. J. Walter Thompson	6.8
2. Ogilvy & Mather	6.0
3. BBDO International	4.3
4. Leo Burnett	4.0
5. Foote, Cone & Belding	3.8

Which agency is best

Based on a poll of a random sample of 300 advertising directors per quarter, at companies with $25 million or more in annual sales. Source: SRI Research Center

	6 Mos. Cumulative (%)
1. Ogilvy & Mather	7.2
2. J. Walter Thompson	7.2
3. Young & Rubicam	4.2
4. BBDO International	3.9
5. Leo Burnett	3.1

Hottest agencies

Based on a poll of a random sample of 300 advertising directors per quarter, at companies with $25 million or more in annual sales. Source: SRI Research Center

	1st Qtr. 1986 (%)
1. Fallon McElligott Rice	6.0
2. Chiat/Day	2.6
3. Tracy-Locke	2.3

First comes to mind

Based on a poll of a random sample of 300 advertising directors per quarter, at companies with $25 million or more in annual sales. Source: SRI Research Center

	1st Qtr. 1986 (%)
1. J. Walter Thompson	21.6
2. Ogilvy & Mather	14.6
3. BBDO International	12.3
4. Young & Rubicam	10.3
5. Doyle Dane Bernbach	6.8

JWT, Ogilvy

(Continued from Page 4)

bach (9.6%).

Minneapolis-based Fallon McElligott Rice was named the hottest agency by 6% of respondents, dislodging Chiat/Day, which led in the category each of the previous four quarters.

Chiat/Day was named by 2.6% of respondents last quarter.

Dallas-based Tracy-Locke, named by 2.3% of the people questioned, broke into the top three among the hottest agencies for the first time.

Tracy-Locke also received six mentions as the best agency (compared with four for FMR and three for Chiat/Day).

When the ad directors were asked to name the best agencies in creativity, media, marketing, research and quality of account executives and top management, JWT was No. 1 in five of the six categories, as it has been in every survey period. But JWT ranked second in creativity for the first time in the latest survey. It previously ranked third or lower.

Chiat/Day, which had been second in three previous quarters and tied for first in the April-June, 1985, survey, fell to fourth in creativity, behind No. 3 Doyle Dane Bernbach.

Ogilvy & Mather was No. 1 in creativity in the latest survey, as it has been in each survey period.

Ad agencies still seem to be doing little advertising for themselves that creates an impression. Nearly half of the respondents said they had not seen any agency ads. JWT was virtually the only agency whose ads for itself were remembered; 3% of responders said they had seen them. In the past, several executives from rival agencies have attributed JWT's leadership in this survey section to the spillover effect of the JWT ad campaign.#

For additional information, contact Gary Gabelhouse, SRI Research Center, 301 S. 68th St., Lincoln, Neb. 68506. Phone: (402) 489-0351.

Sage goes to Jersey

MONTCLAIR, N.J.—Sage Communications, a pr shop formerly based in New York, has moved here to 50 Church St., 07042-2702.

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Ad spending fails to equal predictions

But '85 total did outpace economy

By ROBERT J. COEN

Final returns for the year show that advertising growth in 1985 was lower than projected back in December and considerably less than expected a year ago.

Consider the outlook observations we made a year ago (AA, May 6, '85):

"Last year [1984] was definitely a boom year for advertising, and a more moderate growth rate must be expected for 1985...It appears likely that advertising growth will still manage to outpace the expected growth of 7.5% to 8% for the gross national product in 1985. Ad spending probably will rise by close to 10% in 1985 with the grand total for all media rising to more than $96 billion."

Expectations for both economic and ad growth were continuously revised downward as 1985 unfolded. By midyear, the ad growth forecast was revised down to 9.1% and by early December, when nine months of actual reports were available, the projection was down to 8.3%.

Now that the fourth-quarter final reports are in, it is apparent that 1985 ad spending failed to pass the $95 billion mark and the final growth rate was lower than expected, at 7.9%.

However, '85 brought much less inflation and real growth than expected; instead of the GNP rising between 7.5% and 8%, it was up only 5.7%. The percentage increase in ad spending was significantly less than expected, but the final rate of ad growth still managed to outspace the actual '85 GNP growth by better than two percentage points.

Compared with the economy and most other industries, 1985 was relatively good for advertising. But the year was quite disappointing to many in the media industry.

Ad budgets tightened noticeably throughout 1985 as the economic expansion slowed and new advertising demand failed to appear at the pace experienced in the past.

The balance between media supply and demand shifted in favor of the buyer, and the "seller's" market of the past began to change for many media.

Effect of disinflation

Disinflation, or the significant lowering of the rate of price increases, began to affect parts of the U.S. economy in the closing months of 1981.

But the arrival of disinflation on media pricing was delayed because of the strong surge of ad demand that accompanied the 1983 economic expansion followed by the 1984 Olympics.

Advertising demand leveled off by 1985, while new media such as cable tv, inserts, presorted mailings and barter syndication came on stream to swell the supply of buyer choices.

Disinflation's arrival affected all media, but its greatest impact was on network tv. Many large network-tv advertisers had been forced to hold the line on their own pricing for years, and in '85 many cut back their network budgets or refused to pay higher prices.

The run-up in media prices in contrast to the advertiser's own prices triggered the media price rebellion.

This condition is illustrated by the fact that the Consumer Price Index for food products had risen only 12% from 1981 to '85 while the comparable cumulative run-up in prime time network tv commercials costs was nearly 50%.

The poor performance of the networks in '85 was partially due to the fact that it was a post-Olympic year, but there have been other post-Olympic years since 1971 that did not suffer revenue declines.

Disinflation also struck in '85, and that is why the networks had their first decline since the departure of cigaret ads in '71.

All the other media also have begun to feel the pinch of disinflation.

Magazine revenues grew only 4.5% as many books experienced ad page declines and growing pressure for more favorable special rates and discounts.

Newspapers faced similar conditions. National advertisers cut back schedules in many markets and shifted dollars from run-of-press to inserts to offset rate increases.

Local advertising, newspapers' main source of revenue, rose only 6.7% in '85 despite linage gains for inserts and classified. The local retailers also are obviously refusing to pay significantly higher rates for r.o.p. display ads.

Fourth-quarter slowdown

Fourth-quarter advertising growth was more modest than previously expected, and a significant reexpansion in activity did not occur.

The pre-Christmas promotion period was shortened in 1985 because of the later-than-usual date of Thanksgiving. The fourth-quarter newspaper advertising revenue growth was 25% lower than the annual rate and the unexpected weakness in local newspaper spending was the main reason for the final downward revision of total ad growth to 7.9%.

Ad spending growth in the fourth quarter also was below the annual average for spot tv and magazines, while network tv improved less than previously expected.

Nevertheless, the trend line continued in the upward direction, and though no boom appears to be on the horizon, an orderly and more stable growth can be expected in the months ahead.

A relatively good year

In summary, the final figures for 1985 turned out to be lower than expected a year ago.

Many people in the media business were quite disappointed by last year's results. However, when the facts are fully examined and considered in contrast to all the economic realities, it is evident that the advertising industry had a relatively good year.

Ad growth significantly outpaced economic growth even though there were some temporary and unique disruptions in the trends.

Advertising is going through a period of transition with a temporary emphasis on disinflation in marketing budgeting.

But eventually marketers will shift their attention back to expanding the growth of their products and market shares as the only term process for growing their businesses.

In 1986, I expect advertising again to outstrip economic growth, but I think the two percentage point differential could shrink a bit more before it begins to widen again.

The current consensus economic expectations for 1986 cluster around a GNP growth of between 6% and 7%. Based on these economic expectations and the current indicators of the ad trends, I expect ad spending to rise about 8% this year to a level of at least $102 billion.

At the moment, I expect that a similar level of growth could push the '87 total up to about $110 billion before another possibly sharper upsurge occurs in the 1988 Olympic year.#

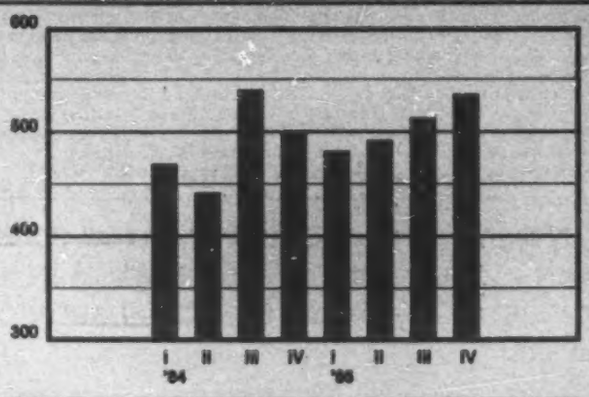
U.S. advertising volume

The McCann-Erickson U.S. advertising volume reports represent all expenditures by U.S. advertisers - national, local, private individuals etc. The expenditures, by medium, include all commissions as well as the art, mechanical and production expenses which are part of advertisers' budgets for each medium. *Source: Prepared for Advertising Age by Robert J. Coen, McCann-Erickson Inc.*

Medium	1984 Millions of dollars	1984 Per cent of total	1985 Millions of dollars	1985 Per cent of total	Per cent change
Newspapers					
National	3,081	3.5	3,352	3.5	+8.8
Local	20,441	23.3	21,818	23.0	+6.7
Total	23,522	26.8	25,170	26.5	+7.0
Magazines					
Weeklies	2,224	2.5	2,297	2.4	+3.3
Women's	1,209	1.4	1,294	1.4	+7.0
Monthlies	1,499	1.7	1,564	1.6	+4.3
Total	4,932	5.6	5,155	5.4	+4.5
Farm publications	181	0.2	186	0.2	+3.0
Television					
Network	8,928	9.7	8,289	8.6	−2.8
Spot	7,498	8.2	8,004	8.3	+9.4
Cable (national)	492	0.6	637	0.7	+29.5
Local	5,084	5.6	5,714	6.0	+12.4
Cable (local)	80	0.1	130	0.1	+62.5
Total	19,870	22.4	20,770	21.9	+5.6
Radio					
Network	320	0.4	365	0.4	+14.0
Spot	1,197	1.3	1,335	1.4	+11.4
Local	4,300	4.9	4,790	5.1	+11.4
Total	5,817	6.6	6,490	6.9	+11.6
Direct mail	13,800	15.7	15,500	16.4	+12.3
Business papers	2,270	2.6	2,375	2.5	+4.6
Outdoor					
National	562	0.6	610	0.6	+8.3
Local	310	0.4	335	0.4	+8.3
Total	872	1.0	945	1.0	+8.3
Miscellaneous					
National	8,941	10.1	9,661	10.1	+8.0
Local	7,915	9.0	8,498	9.1	+8.5
Total	16,756	19.1	18,159	19.2	+8.4
Total					
National	49,630	55.6	53,355	56.3	+7.4
Local	39,130	44.4	41,395	43.7	+5.8
Grand total	87,820	100.0	94,750	100.0	+7.9

National advertising index - 1985

The McCann-Erickson national advertising indexes are key barometers of the month-to-month changes in national advertising spending. These indexes are seasonally adjusted measures of the country advertising revenues for the major national media. The general index is a composite of net tv, spot tv, magazines and newspaper expenditures by national advertisers, and 1967=100. Source: McCann-Erickson



Month	General Index	Net TV	Spot TV	Mags.	News.
January	487	563	583	387	391
February	484	559	579	412	350
March	490	570	578	403	376
April	496	592	596	404	349
May	491	563	603	401	366
June	512	555	669	416	396
July	513	577	628	423	399
August	503	553	604	411	432
September	516	571	620	432	424
October	512	578	635	404	412
November	502	571	603	394	420
December	528	573	601	481	436
Average	503	569	609	414	396
Change over 1984	+3%	−3%	+9%	+5%	+9%

McCann subsidiary eyes regional work

By STEWART ALTER

McCann-Erickson North America is going for the franchise with the creation of McCann-Erickson Regional Marketing, a subsidiary designed to build regional advertising business.

The $17 million agency, embracing seven offices and headquarters in Atlanta, replaces M-E's Communications Counselors Network, an eight-city field office operation that has chiefly served Coca-Cola USA bottlers for the past 25 years.

A key target of the new organization is franchise business. McCann noted that the nation's 500,000 franchise businesses, with $529 billion in sales, experienced 60% growth since 1980 and account for a third of all U.S. retail sales.

M-E Regional will serve local Century 21 real estate offices from all eight of its locations. The Atlanta office will serve Buick dealers associations, Haagen-Dazs Shoppes Co. and Domino's Pizzas in the Southeast.

"The new organization is a recognition of a much more regional approach to marketing today," said Dwight Shelton, 43, former general manager of CCN and now president of M-E Regional.

"Too often, marketers are tied to a national plan that doesn't always meet regional or local consumer needs," said Jay McNamara, president of McCann-Erickson Worldwide.

The new agency "is designed to develop effective and efficient marketing plans and programs for franchise and retail businesses by emphasizing more of a bottom-up approach and not just a top-down planning process," he said.

M-E Regional will be a full-service, separate agency network with creative and research, but will use McCann's existing local broadcast buying operations around the nation.#

Saatchi conflict approach faces big test

An Advertising Age roundup

With its acquisition of Ted Bates Worldwide, Saatchi & Saatchi has set up a major test of its benign approach to competing accounts.

In the Saatchi scheme of things, parallel agency networks, operating independently, should blunt client fears of conflicting loyalties. This concept has led the Saatchis to select their agency buyout targets with what some see as great daring, a "why worry about conflict?" attitude.

With the Procter & Gamble/Colgate-Palmolive problem apparently headed for a resolution with the expected departure of Colgate from Bates, Saatchi's networks still will handle competing cigarets, automobiles, financial services, fast-food, beer, consumer electronics, computer retailing, insurance, candy and spirits (AA, May 5).

In fast food, Campbell-Mithun (owned by Bates) handles International Dairy Queen's $20 million account, and Dancer Fitzgerald Sample (recently merged with S&S' Dorland Advertising) handles Wendy's International, a $100 million piece of business. Said DQ vp-marketing Garry See: "We have no initial hesitation. However, should Saatchi & Saatchi agencies become more involved in Bates and its subsidiaries, we would have to reconsider."

In the food area, Backer & Spielvogel handles about $55 million in Quaker Oats Co. business; Campbell-Mithun (Bates) has $30 million in General Mills' billings.

Though the acquisition is not regarded as a major problem at Minneapolis-based General Mills, the account itself is considered already shaky for other reasons. General Mills has been losing ground to Kellogg Co. in the cereal area, and C-M's work on granola bars has failed to please the company of late. Some of that business has already been shifted to Needham Harper Worldwide. Additionally, Needham has Mills' Wheaties, and Dancer Fitzgerald Sample (affiliated with Saatchi's Dorland already) is the company's major agency on ready-to-eat cereals.

Interestingly, Needham is merging with DDB, which handles several Nabisco cereals.

In the beer category, Bates is now involved in a creative review for one account, Anheuser-Busch's Michelob, and Saatchi & Saatchi recently bought Backer & Spielvogel, a major Miller Brewing Co. agency. An Anheuser-Busch executive's only comment on the situation was terse: "This is something agencies have to work out for themselves."

Bates' move to the Saatchi network roster will result in three cigaret companies in the S&S camp. Lorillard has its True brand at DFS Dorland, R.J. Reynolds has its Salem brand at Bates subsidiary William Esty Co., and Philip Morris has its Parliament at Backer & Spielvogel.

Lorillard and PM have peacefully coexisted under the Saatchis since April, when B&S was bought by the Saatchis.

Asked about potential conflicts, William Campbell, exec vp-marketing at Philip Morris USA, said: "We are a megacompany, so we should expect mega-agencies." Reynolds would not comment.

Hyundai Motor America, the Garden Grove, Cal.-based U.S. arm of the Korean newcomer in the auto market, already addressed the conflict issue when Saatchi purchased its agency, B&S. The company is unconcerned about the Bates acquisition. "We don't feel it will be a problem or a conflict; [it] will make no difference in our daily lives," said Hyundai director of marketing Jack Collins.

But Toyota Motor Sales was more cautious. The Torrance, Cal., Japanese auto importer faced the conflict problem earlier, when Saatchi began a phased merger of the Toyota agency, Dancer Fitzgerald Sample, with its Dorland unit. But Bates' William Esty Co. subsidiary handles U.S. advertising for arch-rival Nissan Motor Corp.

"This is closer to our backyard," said George Borst, Toyota corporate marketing manager. A Nissan spokesman said the company does not see any conflict of interest at this time, although he noted that it will study the situation; Nissan marketing executives could not be reached.

Apart from any Toyota-Nissan "corporate" conflict growing out of the deal, there is already an apparently strained relationship between Nissan and Esty. In recent months, Nissan has put $25 million behind the introduction of its new Hardbody truck line, but substantial sales have yet to materialize. According to *Automotive News*, Nissan truck sales dropped 27.8% in the first quarter of 1986, compared to the same period a year earlier, despite this heavy promotional spending and incentive financing. Toyota, on the other hand, showed a 18.6% gain during that same time.

Pioneer Electronics, Long Beach, Cal., a DFS client, seemed unconcerned about the merger, despite its conflict with Panasonic, a Bates account. "My initial reaction is that it's far enough apart, that it's okay," said manager of advertising Karen Rodgers. "At this moment, I don't anticipate a problem."

Ms. Rodgers said she thinks all advertisers are going to have to rethink their posture on the conflict issue. "This is going to happen. We're all going to have to deal with it."

Saatchi

(Continued from Page 1)

BBDO and Bates, which gain no additional resources through their deals, have been moving as quickly as they have.

This acquisition is expected to test how much clients are willing to tolerate in the way of conflicts. While Bates and its subsidiaries, such as William Esty Co., will remain independent, the purchase brings into the same agency-owned family of networks many competitive advertisers and products—Toyota and Nissan, Tylenol and Anacin, to name a few *(see story above)*. There will be some soul-searching and decisions by companies such as Colgate-Palmolive, which reportedly has $100 million around the world through Bates and was Bates' starter account in 1940, and Procter & Gamble, which has about twice that through Saatchi & Saatchi Compton and DFS Dorland Worldwide.

Reuben Mark, president-ceo, Colgate-Palmolive, said the company would consider all alternatives in the event that its relationship with Bates is terminated. On May 9, Mr. Mark said that he had not received any word from Bates that it intended to resign the account, nor had he decided to dismiss the agency. "We will, of course, do whatever is in the best interest of the company," he said.

Bates handles Colgate toothpaste, Palmolive soap and dishwashing liquid, Palmolive Rapid Shave and additionally serves as Colgate's lead agency in the Far East. Young & Rubicam and Foote, Cone & Belding are Colgate's other major agencies.

Considering where Saatchi now stands, it's hard to believe that Saatchi entered the U.S. and the top 10 agency rankings for the first time only four years ago, when it acquired Compton Communications. In the last two months, Saatchi has grown dramatically.

It struck a complex financial deal that merged Dancer Fitzgerald Sample with its Dorland subsidiary to create DFS Dorland Worldwide via a $75 million "loan" (AA, March 3) and it shelled out an initial $50 million in cash to buy Backer & Spielvogel (AA, April 21). Both of those involve future payouts as well.

But those deals only advanced Saatchi to second place behind the Interpublic Group of Cos. The BBDO-DDB-Needham merger made that agency group the largest with $5 billion in worldwide billings, only now to be surpassed by Saatchi, which is 50% larger. Saatchi's billings are in three worldwide networks (Ted Bates, Saatchi & Saatchi Compton, and DFS Dorland) as well as three other strong agencies in New York (Backer & Spielvogel, William Esty Co., McCaffrey & McCall) and others around the U.S. and in the U.K.

The Saatchi desire to be No. 1 was fueled by its early recognition that agencies outside the very largest groups would be vulnerable because global megacompanies would want to work with a few global mega-agencies. The Saatchi brothers, Maurice and Charles, contend that to be one of the mega-agencies would be a rich prize and would give that agency a strong and secure position for many years to come, one not likely to be reversed.

Now that they have reached this pinnacle, the Saatchis will not be making any further major agency acquisitions—for the time being. They will work on sharpening and consolidating management.

Saatchi is now expected to turn to its other major goal, which is building its consulting division. In November, 1984, Saatchi bought the Hay Group, one of the world's largest management consulting organizations, for about $100 million. It was a move with which Saatchi redefined its corporate goal as being not just in advertising and communications, but in a full range of business services.

Last year, Saatchi restructured its company into a communications and a consulting division and has been building its depth of senior management with new leaders for those divisions.

The Bates acquisition uses up about two-thirds of the $600 million in cash Saatchi raised on April 14 through a rights issue, offering at a discount new shares to those already holding various classes of Saatchi stock.

The Saatchi-Bates talks came to light five months ago, just after they had collapsed (AA, Dec. 16). Mr. Jacoby noted then, "The price they offered was fair, but the 'earn-out' was so contingent that we didn't want to get caught up in anything like that." Sources indicate that Mr. Jacoby's concern with the contingency payout had to do with how conflicts would shake out. His thinking reportedly was that the buyer should take the risk on conflicts rather than the seller, who would lose out in future earnings payments if conflicts fallout reduced profits.

At the time, Mr. Jacoby explained that the talks had come about as a result of the agency's having hired a financial consultant a year earlier. That consultant, Ned Pugh, a former chief financial officer at Avon Products, was hired to develop a "strategy plan" for the agency on matters such as how to "recycle our own shares" among employes and how to build capital and make acquisitions.

Mr. Jacoby said that as an outgrowth of that, he had received offers from outside investors, both individuals and companies, but that selling the agency was not his intention. Several investment companies, including Allen & Co. and Warburg, Pincus Counsellors, reportedly also came to the agency with offers to take it public or find private investors.

As Mr. Jacoby has previously indicated (AA, April 8, '85), he owns 26,000 of the 400,000 Class A shares in Bates. But it's not just that 6.5% ownership that explains his wealth. He also owns all of the 30,000 B shares, which are the voting shares in the company, and reportedly has an option on 75,000 of an additional 100,000 shares available in the company. Mr. Jacoby took over the agency in the 1960s when it billed only $165 million.

While Saatchi is known never to give up interest in an acquisition, even after several rejections, until a few weeks ago its attention was focused on Doyle Dane Bernbach. It made many previous overtures to DDB, including a last-minute offer before DDB chose to make a deal with BBDO and Needham instead. The Saatchi offer, rejected by the DDB board, was said to be $30 a share, a little higher on a share basis than the deal DDB ultimately bought.

Following that rejection, Saatchi returned to Bates, apparently this time with the new payout plan. Interpublic also then became interested in Bates, but reportedly decided on the evening of May 6 not to pursue the deal, which it regarded as too expensive considering the risks. It was not until the evening of May 8 that Bates agreed to the sale and signed the letter of agreement. The public announcement was scheduled to be made today.

Jacoby's temperament puts him at Bates' helm

NEW YORK—Ted Bates Worldwide chairman and president-ceo Robert Jacoby, 58, has controlled the agency so long that when he agreed to talk to the Saatchis this month—reversing earlier responses—this act alone was interpreted as tantamount to a deal.

Mr. Jacoby steered Bates to a 9.2% billings growth last year, at $3.1 billion, and more recently added Kobs & Brady, the Chicago-based direct-marketing agency, to a roster that he had already expanded to include AC&R Advertising, Campbell-Mithun, Diener/Hauser/Bates, William Esty Co., Sawdon & Bess and Stern Walter/Earle Ludgen. Another acquisition, McDonald & Little, didn't last.

A native of Union City, N.J., Mr. Jacoby graduated from Princeton in 1951 as a Phi Beta Kappa with a major in economics and a minor in banking.

After two years with Shell Oil's economics, transportation and supply department, he tried Procter & Gamble.

Mr. Jacoby, newly married, went to a headhunter and in 1953 was placed in a research department job at Compton Advertising. Some work Mr. Jacoby did there on a P&G product, Crisco, encouraged him to seek more experience with other package-goods accounts, and he interviewed at Bates, where he was hired to work on Warner-Lambert business.

He served for a year, then joined the old Doherty, Clifford, Steers & Shenfield agency, working on Bristol-Myers.

But Warner-Lambert and Bates executives kept after him to return to the agency, and he returned in 1965, the year its long-time leader Rosser Reeves—who championed its Unique Selling Proposition philosophy—retired.

In November, 1969, when what was then called Ted Bates & Co. was billing $350 million, it set up a separate New York operation and Mr. Jacoby was named its president. He became exec vp of the parent company in 1970 and president-chief operating officer in 1971.

Mr. Jacoby succeeded Archie Foster as chief executive officer in April, 1973, and three years later was elected chairman, again succeeding Mr. Foster.

Saatchis' unique story

LONDON—Since founding their agency in 1970, Charles and Maurice Saatchi have not listened to conventional wisdom.

Born into an Iraqi Sephardic Jewish family, Charles, 42, and Maurice, 39, have had unconventional careers.

Their parents fled Iraq during World War II, and their father, Nathan David Saatchi, is retired from the family clothing business and lives in London.

Charles quit school at 18 and landed a series of jobs, including copywriter at Collett, Dickenson, Pearce in 1966. In 1968 he left to form a consultancy.

Maurice attended the London School of Economics and then worked as promotion manager for *Campaign*, a U.K. advertising trade magazine.

Charles' creative flair and Maurice's head for business have proved a formidable combination. A propensity for breaking the rules helped, too.

It was Charles' idea to position Saatchi & Saatchi as a brand, combining tough, but clever, ad copy with a cost-conscious financial image. They eschewed meeting directly with clients, but they aggressively chased, via cold telephone calls, other agencies' business.

Charles can be outgoing and engaging, but generally keeps to himself, even to the point of playing chess with associates during his lunch hour.

Maurice, on the other hand, is polite, charming, disarming and the "front man" for presenting the agency to the U.K.'s version of Wall Street. He is the brother who quietly stalks acquisitions.